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CONSTRUCTION ACCOUNTING

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Presently, as for some time past, the construction industry is very active. Subdivisions and house-building projects continue at their peak of development. Flood-control projects and reclamation schemes, with reservoirs and man-made lakes, still constitute a large part of the construction activity.

In 1956, Congress passed the Federal-Aid Highway Act for a mammoth highway-building program to construct 40,000 miles of super-highway across the nation over a 13-year period.

In light of this activity in the construction industry, a few words on construction accounting would appear to be very appropriate. Construction accounting does not appear to receive much attention in accounting courses or schools, nor is there an overabundance of articles in accounting magazines, or books on the subject.

The particular accounting problem appears to be two-fold: (a) how to provide detailed costs of the project or contract promptly and at a reasonable expense and (b) whether to adopt the method of reporting income usually described as "percentage of completion" or the "completed contract" method.

This paper takes into consideration the small and medium-sized contractor, with contracts not exceeding \$3,000,000 to \$4,000,000. After the engineering and architects' departments have completed their review and examination of the plans and specifications for a particular contract and have finally completed and submitted the bid proposal, the accountant can make use of their working-papers to set up his accounting system for such contract. Accounts are opened in the subsidiary job ledger, recording the income and the costs in detail pertaining to each contract. For example, in the construction of a flood-control channel we find accounts as follows:

Account #1: Excavating, removals, grading

Sub-account 1-1 Income

1-2 Costs:

Labor

Rented Equipment

Sheeting timber

Hardware and lumber

Indirect cost accounts

Payroll taxes

Bond premium

Insurance

—general

—workmen's comp.

—general liability

Depreciation

—company's equip.

Job-site costs:

—field office

—telephone

—patrol service

—barricades

Account #2: Channel floors:

Sub-account 2-1 Income

2-2 Costs:

Labor

Concrete

Base material and gravel
blanket

Cure and expansion joints

Rented equipment

Hardware and building
material

Lumber—for forms, etc.

Indirect costs—similar to

Account #1

Other similar accounts, recording each step or phase to the final completion of the project, would then complete the subsidiary job or contract ledger, from which the accountant can compile detailed costs and the net profit or loss for each step of the construction and of course the totals for the entire project.

We need not concern ourselves with too much detail concerning the books of original entry. They are the usual voucher record or check register, payroll records and journal, with columns so arranged to give the information and posting media for the detailed subsidiary job ledger accounts described above.

It is difficult to state categorically which method of recognizing income is better, or which an accountant might adopt. Undoubtedly the accountant, after he has become familiar with the particular system and type of contracts, is the one who can best advise and recommend the adoption of one of the two methods.

In brief, the "completed contract" method is that in which income is not recognized until the contract or project is completed,

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chapters and chapter bylaw revisions.

The harmonious presentation of each issue of ASWA Coordinator, our membership bi-monthly publication, was the work of our Editor and Bulletin Committee Chairman, Elizabeth E. Shannessy. The bulletin was enhanced by the diligent and talented efforts of the coast-to-coast editor and her associate, Marjorie Becker and Ruth Gooch.

The report of the Special Regions committee, under Helen Stocking's direction, will be presented for action at the 1957 annual business meeting.

Maintenance of national headquarters has again been under the direction of Beatrice Langley, Supervisor. We gratefully acknowledge her consistent efficiency coupled with courteous cooperation which has contributed a valuable continuity to our progress.

A major factor in our success and progress continues to be the contribution and support of our affiliate, AWSCPA. Working with AWSCPA President Elizabeth Sterling has been an enriching experience. Our joint responsibilities are gaining momentum to further our aims and objectives. Our thanks are due to members of both organizations who contributed to the professional, technical and social interest of our 1956 joint annual meeting in Seattle.

The Woman CPA, our official joint publication, under the capable hands of Editor Margaret Tuma continued to generate professional power and quality.

Hostess Chapters Cincinnati and Denver attracted a record number of members to participate in Regional Conferences. Subjects covered under the themes of "Expanding Horizons" and "Accounting at the Crossroads" were of timely and practical value. A particular and special "Thank you!" to Chairmen Jeanne Etienne and Cleo Burgess and their committees for two splendid conferences.

Chapter visits supply a satisfying, important and valuable experience. I regret that it was necessary to limit them. Circumstances dictated that my time and energies be focussed on the routine, special and particular desk tasks this office provided.

It has been an opportunity and privilege to serve you as President. This enriching experience returns me to the fold a better member. May our capable successors receive the light of His favor in their appointed tasks.

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or substantially completed. Hence the profit or loss is not determined until the latter stages of the construction. In "percentage of completion" method income is recognized, based upon the certificates and estimates of the engineers, and periodic determination of profit or loss made during construction.

Other phases of the construction industry that are of interest to the accountant and should be mentioned in a paper dealing with construction accounting are the financing of the project and the inclusion in the contract of bonds signed by the contractor and a surety company for faithful performance and for material and labor.

Periodic payments are made to the contractor, perhaps monthly, based on the progress reports of the engineers, with the contractee withholding or retaining 5-10 or 15% of the month's estimate. Upon completion of the project the entire retention is then paid to the contractor after a stipulated time. Due to this retention, the contractor must frequently seek working capital from his banker or credit grantors to finance the project. The banker in turn looks to the accountant for the financial statements and related information to support the extension of credit.

Bonding companies, before entering into an agreement with the contractor and signing the bonds for faithful performance and material and labor which become part of the contract, will require from time to time the financial statements of the contractor. They measure the extent or capacity that they can co-sign with the contractor in establishing the required bonds for each contract.

The laws of the state may affect the work of the accountant in varying ways. It is a requirement of the State of California, Department of Public Works, that for all contracts in excess of \$50,000 with the State a "Contractor's Statement of Experience and Financial Condition" be filed. Based on this statement the State of California will measure the bidding capacity of the contractor. This bidding capacity will then apply to the contractor for a period of fifteen months subsequent to the date of such financial statement. The "Contractor's Statement of Experience and Financial Condition" must be certified by a certified public accountant or a public accountant.